LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6452
BILL NUMBER: SB 313

NOTE PREPARED: Feb 22, 2010
BILL AMENDED: Feb 22, 2010

SUBJECT: Net Metering.

FIRST AUTHOR: Sen. Merritt
FIRST SPONSOR: Rep. Dvorak

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Net Metering:* This bill requires the Utility Regulatory Commission (IURC) to adopt emergency rules amending the IURC's net metering and interconnection rules for electric utilities. It provides that the amended rules must: (1) make net metering available to all customer classes; (2) allow a net metering customer to interconnect to an electric utility's distribution facility a generating system that is sized to meet all or part of a customer's electric load; (3) allow a net metering customer to interconnect a generating facility that makes use of specified technologies; and (4) allow for customer meter aggregation. It provides that a rule adopted by the IURC to amend the IURC's net metering and interconnection rules may not make the net metering and interconnection rules apply to a cooperatively owned power supplier or a municipally owned utility.

The bill also provides that the existing rules are void to the extent they do not comply with the requirements for the amended rules. It requires the IURC to report to the Regulatory Flexibility Committee on the IURC's progress in adopting the amended rules. It requires the IURC to include certain information in its annual report to the regulatory flexibility committee regarding the number of net metering customers, any safety incidents, and the cross subsidy impact of net metering to other ratepayers of each electric utility.

Renewable Electricity Standard: The bill requires an electricity supplier to supply at least 4% of its electricity generated through wind power not later than December 31, 2014. It establishes the renewable energy resources fund (RERF) to receive penalties paid by electricity suppliers that fail to supply electricity from renewable energy resources. It appropriates money in the fund.

Effective Date: (Amended) Upon passage; July 1, 2010.

Explanation of State Expenditures: (Revised) *Net Metering -IURC*: The bill directs the IURC to adopt

rules to implement its requirements and to ensure the Indiana Administrative Code is updated as necessary. It requires the Commission to report to the Regulatory Flexibility Committee by November 1, 2010, on its progress in adopting the amended rules. The Commission also has to include in its annual report to the Flexibility Committee information on the number of net metering customers served by each utility disaggregated by customer class and nameplate capacity, a description of each safety and/or grid reliability incident and any remedial measures taken in response to the incident, and an estimate of the cross subsidy impact of net metering to other ratepayers of each electric utility.

The bill's requirements may represent an additional workload (and/or expenditure) on the Commission outside of the agency's routine administrative functions, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. However, any increase in administrative expenses would probably be borne by the Public Utility Fund which funds the agency's operations. Proceeds for the fund come from a fee on the gross revenues of the utilities.

Under current law, an electric utility (current law applies only to investor-owned utilities) has to offer net metering to residential customers and K-12 schools that install a generating facility (solar, wind, hydro-electric only) with a capacity of 10 kilowatts (kW) or less. It could, if it wishes, offer net metering to other customers such as state and local governments. Current law also permits the utility to limit the total amount of its capacity allocated to net metering to 0.1% of its most recent summer peak load. If a customer produces a net excess of electricity during the billing period, the excess is credited to the customer's next bill, and the excess can be carried over indefinitely.

The bill requires only investor-owned utilities (municipally owned utilities and electric cooperatives are specifically excluded from this requirement) to offer net metering to all customer classes. It also expands the type of generating facility to include those that produce electricity from other renewable energy sources besides solar, wind, or hydro-electric (e.g. combustion technology, microturbines using renewable fuels or natural gas, organic waste biomass, fuel cells, landfill gas, energy storage systems, combined heat and power system that achieve at least 70 % efficiency). The bill also deletes the 10 kW maximum capacity requirement for customer generating systems and instead permits a generating capacity that would meet all or part of the customer's electric load. Additionally, for billing purposes, this proposal permits customers to aggregate the total amount of electricity used from all their generating systems.

Renewable Electricity Standard:

a. *IURC*: The bill directs the Commission to adopt rules to implement its requirements. The agency would have to certify that each electric supplier has supplied its annual quota of wind-generated electricity to its Indiana customers. The agency would also have to design a methodology for the trading of wind-generated power as the bill gives suppliers the option of either trading for such power or generating it themselves in order to comply with its requirements. If an electric supplier fails to fulfill its annual quota, the Commission may have to hold additional public hearings to determine whether an event beyond the reasonable control of the supplier was the cause. Additionally, not later than April 1, 2015, the Commission has to report to the General Assembly on how successful the industry was in complying with the bill's requirements.

The bill's requirements may represent an additional workload (and/or expenditure) on the Commission outside of the agency's routine administrative functions, and existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation. However, any increase in administrative expenses would probably be borne by the Public Utility Fund which funds the agency's operations. Proceeds

for the fund come from a fee on the gross revenues of the utilities.

b. *Renewable Energy Resources Fund*: The Indiana Economic Development Corporation (IEDC) is tasked with administering this fund. Proceeds would fund wind-generated technology research at state supported colleges and universities, and would provide grants for manufacturing projects using wind-generated electricity. The treasurer of state shall invest the proceeds of the fund, depositing any interest that accrues in the fund. Money in the fund would not revert to the state general fund at the end of the state fiscal year.

The bill stipulates that the expenses of administering the fund be borne by the fund, and that total expenses not exceed ten percent of the balance in the fund. As a result, the fiscal impact on the IEDC and treasurer of state is expected to be negligible as long as administrative expenses do not go beyond the ten percent limit. As the primary source of funding for the RERF is penalties on electric suppliers, it is possible that amount in the fund would be limited if suppliers fulfill the requirements of this bill.

Under this proposal, a certain percentage of electricity that an electric supplier (probably investor owned utilities as municipally owned utilities and electric cooperatives are specifically excluded from this requirement) provides to its Indiana customers would have to be generated by wind power. The quota is at least two (2) percent by the end of 2012; three (3) percent by the end of 2013, and four (4) percent by the end of 2014. The utility has the option of trading for wind-generated electricity in order to meet its quota. Suppliers not meeting this requirement are subjected to fines: $50 for each megawatt hour (MWh) lower than the minimum requirement.

In computing a supplier's compliance, the bill differentiates between wind-generated electricity produced within and outside the state. Electricity generated outside the state is only given half the weight as that generated within the state. For example, assume that a supplier provides 100 MWh total wind-generated electricity, and 50 MWh were generated within the state while the remaining 50 MWh were purchased outside the state. Under this bill, the supplier would be given credit for 75 MWh: the 50 MWh produced within the state plus half of the 50 MWh purchased outside the state. If this utility's quota for the year is100 MWh, it would be subjected to a fine of $1,250: $50 multiplied by 25 MWh.

State and Local Government Utility Expenditures:

a. Net Metering: The bill requires electric utilities to offer net metering to state and local agencies. As a result, there could be a decrease in the electric utility expenditures of these agencies. The impact would ultimately depend on how much of its own energy the agency would be capable of generating. However, the bill would have no impact if the utility in question is municipally owned or an electric cooperative as these would still be prohibited from entering into net metering agreements.

b. Renewable Electricity Standard: If wind-generated electricity in the long run leads to a reduction in average consumer prices there could be a reduction in state and local expenditures for electricity. The reduction in prices would depend on the percentage of the base load supplied by wind-generated electricity. However, the bill would have no impact if the utility in question is municipally owned or an electric cooperative, as the bill exempts these types of utilities from having to supply wind-generated power.

Explanation of State Revenues: (Revised) *Utility Rates:* To the extent that utility rates are affected by the requirements in this bill, there will be an impact on Sales Tax, Utility Receipts Tax (URT), and Utility Services Use Tax (USUT) collections. Both the net metering initiative and the proposal to increase the

amount of wind-generated electricity could potentially cause utility rates to decrease in the long run. This would lead to a decrease in Sales Tax, Utility Receipts Tax (URT), and Utility Services Use Tax (USUT) collections.

Renewable Electricity Standard - Renewable Energy Resources Fund : The bill requires electricity suppliers that do not meet the renewable energy resource requirements in the bill to pay a penalty equal to the number of MWh of wind-generated electricity the supplier was required but failed to supply multiplied by $50. Money from other sources may also be deposited in the fund. The amount of penalties that may be collected is indeterminable; it would depend on how many MWh of wind-generated electricity suppliers failed to provide to meet the requirements of this bill, and how much of that deficit was waived by the IURC because of circumstances beyond the suppliers' control.

Background Information:

a. Net Metering: According to the U.S. Department of Energy, "net metering allows consumers to offset the cost of electricity they buy from a utility by selling renewable electric power generated at their homes or businesses back to the utility. In essence, a customer's electric meter can run both forward and backward in the same metering period, and the customer is charged only for the net amount of power used."

b. Renewable Electricity Standard: According to the Department of Energy, wind power is one of the largest sources of new power generation. In 2008, it produced 42% of all new generating capacity. Indiana has a little over 1,000 MW of wind power capacity of which about 900 MW were installed in 2009. Based on wind power generation being 25% of the total base load capacity, one study estimates that electricity prices would be reduced by about eight (8) percent. In 2009, Duke Energy planned to purchase up to 100 MW of wind power energy form the Benton County wind farm.

c. *Utility Rates:* The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.67%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures: See *Explanation of State Revenues.*

Explanation of Local Revenues:

State Agencies Affected: IEDC; Treasurer of State; All.

Local Agencies Affected: All.

Information Sources: Brian Borum, Director of the IURC Electricity Division, 317-232-2304; United States Department of Energy websites: http://www.eere.energy.gov/states/alternatives/net_metering.cfm; http://www.windpoweringamerica.gov/state_activities.asp; Union of Concerned Scientists Website: http://www.ucsusa.org/

Fiscal Analyst: David Lusan, 317-232-9592; Diana Agidi, 317-232-9867.